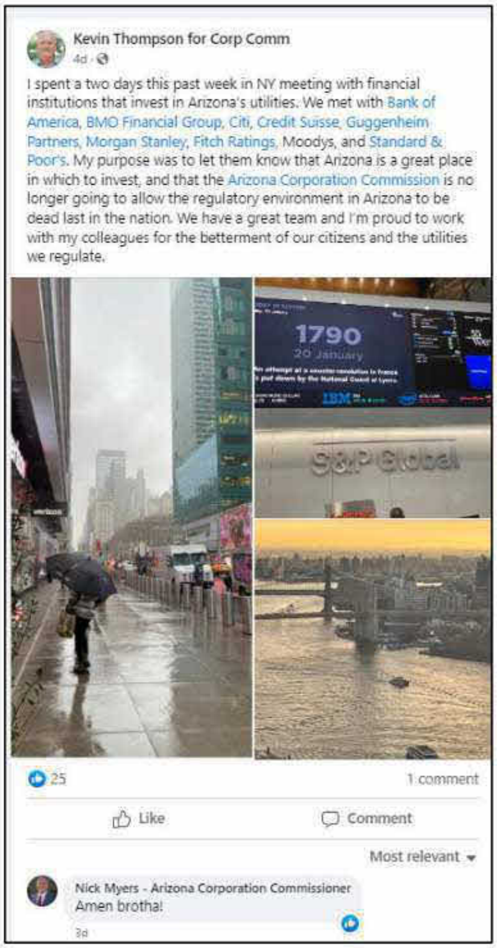
From: *Abhay Padgaonkar, Consumer Advocate*
Date: January 27, 2023
Docket: 2022 APS Rate Case (**E-01345A-22-0144**) and 2022 TEP Rate Case (**E-01933A-22-0107**)
Re: **Comm. Thompson's 'Wolves of Wall Street' Junket Screams for an Ethics Investigation**

Dear Chairman O'Connor and Commissioners:

As a ratepayer, I am not sure what I find more disgusting: A newly-elected Arizona commissioner Kevin Thompson making a beeline to New York to meet with the "Wolves of Wall Street," believing that his job still entails being the utility industry lobbyist or the other newly-elected Arizona commissioner in the same echo chamber cheerleading the junket with an "Amen brotha!" from his *Nick Myers - Arizona Corporation Commissioner* account.[1]



This junket is more than a slap in the face of Arizona ratepayers. It is the equivalent of giving them the middle finger. The only question in my mind is whether the recall petition for them must start now or after both of them have rubberstamped the nearly $600 million pending annual rate increase request for the "betterment" of APS and TEP.

According to the cringeworthy Facebook post on an obsolete page created for the 2022 campaign, the purpose of the trip — while there are two ongoing major rate cases (APS and TEP) with *ex parte* invoked — was seemingly to "let them know that Arizona is a great place in which to invest, and that the Arizona Corporation Commission is no longer going to allow the regulatory environment in Arizona to be dead last in the nation." Oh, and it was "for the betterment of our citizens and the utilities." Really?

Although any violation of the *ex parte* rule requires immediate recusal, given the ACC's comical ethics code[2] that allows a commissioner to decide whether to recuse him or herself, I am not going to waste my breath asking for a recusal at this time.

However, I will demand an immediate, independent, and timely ethics investigation by the ACC, the result of which must be made public in its entirety without redactions. If the Commission fails to do so — now that the Rubberstamp Regulators are back on the Commission — feel free to bring back the Corruption Commission moniker.

As you will see, this NY junket raises too many red flags. 1) I will raise some questions that are top of mind for me. 2) I will demonstrate how an Investor-Owned Utility (IOU) like APS continues to bring real harm to Arizona ratepayers. 3) I will also explain how "constructive" regulatory environment is nothing but a codeword for lining the pockets of the utilities and their investors on the backs of the captive ratepayers. Finding the right balance is important, but it must not involve a sitting commissioner kissing the behinds of equity analysts and credit rating agencies while being applauded by another. If they want to do that, they must resign as regulators and become industry lobbyists or work for the ACA or GPEC. Shame on them!

[1] "Kevin Thompson for Corp Comm" at: https://www.facebook.com/ThompsonforCorpComm
[2] "ACC Code of Ethics" at: https://www.azcc.gov/code-of-ethics

ACC - Docket Control - Received 1/27/2023 2:16 PM
ACC - Docket Control - Docketed 1/27/2023 2:35 PM

1. Ratepayers demand immediate and independent ethics investigation into Comm. Thompson's junket

This trip by Comm. Thompson, with the ink barely dry on his swearing-in, more than raises eyebrows. The only interest investors have in Arizona is in ensuring higher utility profits and stock prices. A sitting Commissioner, talking about improving the regulatory environment when APS and TEP have pending rate cases, raises too many troubling questions, as follows, that an **ethics investigation** must answer:

a) Whose idea was it to have these meetings in New York with equity analysts and credit rating agencies?

b) Was this trip an official ACC meeting? If not, why was commission business discussed and disseminated?

c) Were any ACC employees, resources, accounts, or systems used for these meetings?

d) Which individuals, including but not limited to Commission employees, regulated utility employees, lobbyists, contractors, representatives, or self-appointed spokespersons (e.g., Paul Walker) are in possession of texts or emails, notes of meetings, minutes of meetings, receipts for expenses, emails or texts with utilities related to the trip or meetings with these entities Comm. Thompson met with?

e) Did ACC pick up the tab for this meeting? If so, how much was it? If not, who funded this trip?

f) Did anyone else from the ACC attend?

g) Were there any calls before or after the meetings?

h) Did any regulated utility employees, lobbyists, contractors, representatives, or self-appointed spokespersons participate in any communication before, during, or after the meetings?

i) Did any regulated utility employee, lobbyist, contractor, representative, or self-appointed spokesperson help in proposing, scheduling, coordinating, administering, attending, or funding the meetings?

j) Who specifically was Comm. Thompson referring to when he said "We met with..."?

k) Who provided contacts to Comm. Thompson for Bank of America, BMO Financial Group, Citi, Credit Suisse, Guggenheim Partners, Morgan Stanley, Fitch Ratings, Moody's, and Standard & Poor's?

l) Were there other parties (e.g. Goldman) who were approached but did not attend or refused to attend?

m) Who approached each of the parties for a meeting? How?

n) Who scheduled each meeting and when? How?

o) Who coordinated each meeting? How?

p) Who attended each meeting in person or remotely?

q) Where were the meetings held?

r) Were the meetings recorded?

s) Which utilities were discussed specifically?

t) What issues were discussed specifically?

u) Did Comm. Thompson or the utility investors reference any rate cases or rate-making elements? Did any prohibited communications occur before, during, or after the meetings with these organizations related to regulated utility cases for which *ex parte* has been invoked?

v) What messages did the utility investors convey to the commissioner?

w) Did any of the meeting participants make any requests for specific policy changes?

x) Who gave the right to Comm. Thompson to speak on behalf of the entire Arizona Corporation Commission about what the ACC will allow or not allow?

y) Considering that Fitch Ratings, Moody's, and Standard & Poor's are credit rating agencies and not investors and APS's repeated assurance to the investors about its "strong investment grade credit ratings" did Comm. Thompson discuss *how* he would improve regulatory environment to receive higher utility credit ratings?

z) What did Comm. Thompson say he planned to do to not allow the "regulatory environment in Arizona to be dead last in the nation"? What specific actions, amendments, proposed orders, decisions, or votes — and affecting which specific rate-making elements — did Comm. Thompson propose or promise?

aa) Has Comm. Thompson owned shares in any of the ACC-regulated utilities? Does he still own any shares? How many and worth how much?

2. An Investor-Owned Utility like APS continues to bring real harm to Arizona Ratepayers.

The Commissioners would do well to read this ratepayer complaint from Patty Williamson in the 2022 APS Rate Case docket.[3] Ms. Williamson is onto something important.

> "MY FRIEND LIVES IN SRP AREA AND HER TOTAL KW'S WERE MUCH HIGHER THAN MINE IN JANUARY 2023 BILL. HER BILL WAS $41 .00 WITH SRP FOR A 1600 SQ FOOT HOME WHILE MINE WAS $81 .00 WITH APS FOR USING ONLY 473 TOTAL KW'S. THAT'S OUTRAGES AND DISGRACEFUL. 473 TOTAL KW'S COST $81 .00 AND THEY WANT ANOTHER RAISE????????? FOR GODS SAKE DO SOMETHING FOR CONSUMERS AND QUIT TAKING APS ELECTRIC SIDE ALL THE TIME."
>
> - **A portion of Patty Williamson's complaint to the ACC**

The Supreme Court of Arizona in *CORP. COM'N v. State Ex Rel. Woods* recognized the Commission's goals of **"protect[ing] ... consumers [in Arizona] from the abuses inherent in the public utility holding company structure."** Let's examine how these abuses inherent in the investor-owned utility structure of APS have caused real harm to Arizona ratepayers.

Significantly Higher APS Rates: APS is an **investor-owned utility** regulated by the ACC and its average rate was **23%** higher than that of SRP, a **community-based, not-for-profit** organization, according to the 2021 EIA data.[4] As a result, APS customers used 935 GWh *less* and still paid nearly **$565 million** more in a single year.

Utility Characteristics					TOTAL				
					Revenues	Sales	Customers	Rate	
Data Year	Utility Number	Utility Name	Ownership	BA Code	Thousand Dollars	Megawatthours	Count	Cents/kWh	APS % Higher
2021	803	Arizona Public Service Co	Investor Owned	AZPS	3,500,263.9	29,228,236	1,317,266	11.98	23%
2021	16572	Salt River Project	Political Subdivision	SRP	2,935,672.0	30,162,901	1,098,151	9.73	

And yet, Comm. Thompson promised the "Wolves of Wall Street" that he will make the regulatory environment better for the regulated utilities, which undoubtedly will result in higher profits. What do you think higher profits at APS and TEP will do to the APS and TEP rates?

Substantially Worse APS Reliability: Also, according to the 2021 EIA reliability data,[5] APS customers experienced interruptions more frequently and they lasted longer than they did for SRP customers. The total time an average APS customer experienced power interruption in 2021 was **87.36** minutes compared to only 47.88 minutes for an SRP customer — or **82%** higher. The frequency of interruptions for an APS customer was 0.89 compared to 0.77 for an SRP customer — or **16%** higher.

					Without Major Event Days	
Data Year	Utility Number	Utility Name	State	Ownership	SAIDI (minutes per year)	SAIFI (times per year)
2021	803	Arizona Public Service Co	AZ	Investor Owned	87.360	0.890
2021	16572	Salt River Project	AZ	Political Subdivision	47.880	0.770
					82%	16%

Bottom-of-the-Barrel APS Customer Satisfaction: Little wonder then that while SRP had the **highest** customer satisfaction score in the nation (and the highest in the West for the 20th consecutive year) in the J.D. Power 2021 Electric Utility Residential Customer Satisfaction Study,[6] APS was in the **bottom quartile**, ranked **44th among 57** large utilities in the study.

These pertinent performance measures don't matter to the "Wolves of Wall Street." They couldn't care less about them because those entities only care about shareholder profits and stock prices. They don't want just and reasonable rates that the Arizona constitution mandates from the Commission.

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[3] Complaint from Patty Williamson at: https://docket.images.azcc.gov/E000023732.pdf

[4] 2021 Utility Bundled Sales to Ultimate Customers- Total at: https://www.eia.gov/electricity/sales_revenue_price/pdf/table10.pdf

[5] Annual Electric Power Industry Report at: https://www.eia.gov/electricity/data/eia861/

[6] J.D. Power 2021 Electric Utility Residential Customer Satisfaction Study at: https://www.jdpower.com/business/press-releases/2021-electric-utility-residential-customer-satisfaction-study

3. "Constructive" regulatory environment is a codeword for lining the utilities' pockets on the backs of the captive ratepayers

A constructive regulatory environment is a euphemism for the Commission to be in cahoots with the regulated utilities in lining their pockets while falsely claiming that it is in the best interest of the ratepayers.

The Arizona Supreme Court in *Ariz. Corp. Comm'n v. State ex rel. Woods*[7] explained the core mission of the Commission. The Court also admonished that it is "the Commission's … **duty to protect utility customers from abuse and overreaching by public service corporations.**"[8] The Court presciently noted that abuses are **"inherent in the public utility holding company structure."**

> The Commission was not designed to protect public service corporations and their management but, rather, was established to protect our citizens from the results of speculation, mismanagement, and abuse of power. To accomplish those objectives, the Commission must have the power to obtain information about, and **take action to prevent, unwise management or even mismanagement and to forestall its consequences.**
>
> *Woods*, 171 Ariz. at 296 (Emphasis added).

And yet, Commissioners Thompson and Myers have the gall to whine about the regulatory environment in Arizona — only because the previous commission held a greedy utility like APS somewhat accountable for the first time in a long time.[9] These two anti-ratepayer commissioners are hell-bent on vindicating the utilities' greedy goals at the expense of the public interest.

I debunked the nonsense they are peddling through multiple public filings and comments during the 2019 APS Rate Case proceedings. Specifically, three filings are worth republishing since the message appears to be lost on them. Here is a summary of the three filings with complete filings in the appendix.

The 2021 Paul Walker Sequel. 'Wall Street Sharks II: Supervillains to Saviors'

Paul Walker chastised Commissioners for making the Wall Street sharks quite upset by creating regulatory roadblocks that impact APS's earnings growth potential. I address the folly of Mr. Walker's specious argument that if the Commission doesn't genuflect before the Wall Street sharks, the sky will fall on the ratepayers. The snake oil Mr. Walker is peddling to the Commission is this: Arizona will face dire consequences if the Commission doesn't approve imprudent SCR investments, reward APS with 10% ROE, and authorize $169 million in revenue requirement, an amount ***111 times more*** than the $1.52 million in doomsday costs.
Source: https://docket.images.azcc.gov/E000015407.pdf

Ignore the equity analysts' temper tantrums

It's simple: Higher the PNW stock price, the higher the customer rates. And yet, Shahriar Pourreza (at Guggenheim) would have us drink the Koo-Aid that when you harm shareholders, you also automatically hurt ratepayers. Evidence shows that shareholders win only when powerless customers are screwed. PNW stock shot up by 300% from 2009-2018 with APS's residential rates skyrocketing 30% from 2008-2018. That 10x relationship indicates that for each 1% increase in rates, PNW stock rose by 10%. But when less money comes out of ratepayers' pockets, it makes the likes of Mr. Pourreza look bad. I'm sure Mr. Pourreza would have jumped for joy, praised the ACC, high-fived APS executives, and jacked up his price target if the ACC had authorized an 18.7% ROE, something that would have absolutely destroyed ratepayers.
Source: https://docket.images.azcc.gov/E000016100.pdf

The Fitch Ditch: What's the Ratepayer Impact (Negligible) and Who is to Blame (APS)?

Have you ever spent $50 to save $1? Hopefully not, because it makes no sense. But that is exactly what APS is scaremongering with the nonsense about the credit rating downgrade and higher borrowing costs. But isn't it better for ratepayers to pay $1 in possibly higher borrowing costs that a lower APS credit rating may entail rather than a guaranteed $50 rate increase?
Source: https://docket.images.azcc.gov/E000016203.pdf

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[7] Ariz. Corp. Comm'n v. State ex rel. Woods at: https://law.justia.com/cases/arizona/supreme-court/1992/cv-91-0082-sa-2.html
[8] *Woods*, 171 Ariz. at 294-97; *Miller*, 227 Ariz. at 28-29.
[9] "Utility regulators' message to APS: The days of buying a rubber stamp are over" at: https://www.azcentral.com/story/opinion/op-ed/2021/11/13/aps-rate-case-beatdown-victory-customers-not-shareholders/6356260001/

APPENDIX

From:	*Abhay Padgaonkar*
Date:	August 31, 2021
Docket:	APS 2019 APS Rate Case **(E-01345A-19-0236)**
Re:	**The 2021 Paul Walker Sequel. 'Wall Street Sharks II: Supervillains to Saviors'**

Dear Chairwoman Márquez Peterson and Commissioners:

Oh, how the Wall Street sharks have gone from being supervillains to saviors in just five years!

In July 2016, Paul Walker produced a video supporting a controversial Solar Partners program, part of APS's pending rate case at the time, in which then-commissioner Tom Forese (elected with APS's dark-money campaign[1]) participated. Even CEO Jeff Guldner (then a Senior Vice President) appeared in the video, which showed **Wall Street sharks** chasing toy people meant to depict solar customers being taken advantage of. When asked about being part APS's undue influence on the Commission, Mr. Walker responded: *"That never meant he (Forese) was predetermining a cost in a rate case. This is just typical political crap."*[2]

Fast forward to 2021 and the Wall Street sharks have become Arizona's saviors — at least in Mr. Walker's book. In fact, he chastises Commissioners for throwing regulatory roadblocks in APS's earnings growth potential path and making the Wall Street sharks crosswise. C'mon Commissioners! How dare you offend the Wall Street sharks?

Three simple inquiries confirm that it's an *ex parte* communication to benefit APS — with a potential threat

By Whom? APS has admitted to being a client of Paul Walker's company.[3] Paul Walker (an ex-employee at the ACC who should have known better) is a **registered lobbyist** at the ACC since **7/31/18**.[4] His representation of APS is *supposed to have ended* on **1/31/21** (the record was somehow last modified on **7/8/20**) and yet Mr. Walker is still advocating for APS. The Commission must fully investigate these discrepancies along with the APS-Paul Walker connection, and most importantly, **make sure that ratepayers are not paying a single penny** toward his lobbying fees that APS (or others) may have paid, and is possibly continuing to pay.

Paul Walker	
Active Registration LobbyistID: 69	Registration Date: 7/31/18, 4:11 PM Last Modified: 7/8/20, 3:54 PM
Theseus LLC	1310 E Pedro Rd PHOENIX, AZ 85042 (160) 270-3420
Public Service Corp/Interested Parties Represented	
Global Water Resources 4/1/18 -	21410 North 19th Avenue, Suite 220 Phoenix, AZ 85027 (480) 360-7775
Arizona Public Service 1/1/20 - 1/31/21	400 N 5th Street Phoenix, AZ 85004 (602) 371-7171

For Whom? Whether the email Mr. Walker sent contains a copy of his most recent update on the Arizona regulatory climate is immaterial. That Mr. Walker has disseminated the updates to a broad audience is equally immaterial. The fact remains that neither the cover email nor the attachment were on the public record of a contested proceeding. Because they are now public, doesn't absolve him or APS. Whether it was not "prepared in conjunction with, for, or on APS's behalf" is immaterial. **The unauthorized communication by a lobbyist was prepared for APS's benefit.**

What? Whether other Arizona utilities are Mr. Walker's clients is immaterial. That it includes investment analysts' opinions given to him by his Wall Street "friends" is also immaterial. APS is in a fully-litigated rate case for the first time in a long time.[5] The express purpose of his latest email is to exert non-public influence on the commissioners. An older version included in the Costs of Inconsistency whitepaper[6] available on website theseusllc.net, mentions **APS 25 times and PNW more than 50 times**. What else could his specific intent be in bringing up SCR disallowance, RUCO recommendations, and cost of debt and equity issues — all of which were fervently argued by APS's experts? More than just spam emails or lobbying (which is Mr. Walker's right if it is on the public record) or even the unauthorized communications, the most worrisome aspect is the potential threat in his email to the Chairwoman:

> ***"APS is now expected to have to file a rate case within a year after its decision becomes final — and to have to litigate extensively on the SCR disallowance."***

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[1] Welch, D. (2019, April 2). APS admits it spent big money electing regulators in 2014. Azfamily.com. https://www.azfamily.com/news/politics/arizona_politics/aps-admits-it-spent-big-money-electing-regulators-in-2014/article_7ebdaefe-55ad-11e9-86b1-a3f29b8c7952.html

[2] Randazzo, R. (2016, July 29). Democrats complain APS solar issue being prejudged. *The Arizona Republic*. https://www.azcentral.com/story/money/business/energy/2016/07/28/democrats-complain-aps-solar-issue-being-prejudged/87594622/

[3] APS response to the Chairwoman at: https://docket.images.azcc.gov/E000015382.pdf

[4] ACC Registered Lobbyist search at: https://efiling.azcc.gov/public-records/lobbyist/detail;id=67b17ef6-654f-4f41-bc4b-c448ef251e19

[5] **The Chairwoman must not coerce a settlement from the dais by giving more weight to joint filings from "otherwise traditionally opposing parties."**

[6] "Theseus The Costs of Inconsistency June 2021 at: https://theseusllc.net/articles-and-publications

Arizona will face dire consequences if the Commission fails to rubberstamp APS's request, really?

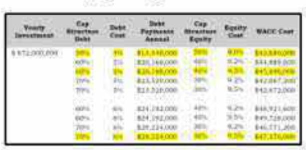
Let me address the substance (or lack thereof) of Mr. Walker specious argument that if the Commission doesn't genuflect before the Wall Street sharks, the sky will fall on the ratepayers. He suddenly seems to value opinions of Wall Street sharks he derided five years ago. (<u>Question:</u> If the analyst reports are "publicly available," why doesn't Mr. Walker cite them, but instead gets them from "friends" of his on Wall Street as a courtesy?)

The Arizona Supreme Court in *Ariz. Corp. Comm'n v. State ex rel. Woods*[7] said: **"The Commission was not designed to protect public service corporations and their management but, rather, <u>was established to protect our citizens from the results of speculation, mismanagement, and abuse of power.</u>"** The Court presciently noted that abuses are **"inherent in the public utility holding company structure"** necessitating **"a balancing of the investor and consumer interests."** Don Brandt openly testified to the ACC in Sep. 2019 that APS management's "first allegiance" was to the shareholders who own the company,[8] and he certainly acted as such.

Wall Street quadrupled the PNW stock — from a low of $23.00 in 2009 to a high of $92.33 in 2018 — which enabled Pinnacle West to create **$8.8 Billion** in Total Shareholder Value from 2009-2018 aided by an assist from corrupt commissions it had bankrolled. No Wall Street shark shed a tear about the fact that APS's residential rates had skyrocketed by more than **30%** from 2008 (10.88 cents/kWh) to 2018 (14.16 cents/kWh) — at a growth rate significantly higher than inflation — <u>despite the average and total residential usage had, in fact, declined</u>. By 2018, APS's residential rate was **21%** higher than SRP's, **13%** higher than TEP's, and **41%** higher than UNS's residential rate, according to the EIA price data.[9] But the Wall Street sharks are *now* worried about an environment of "consumer advocacy" and "an effort on the part of the commission to control rates"?[10] Life was sure good when the commission failed to control rates.

Wall Street sharks celebrated these achievements in Total Shareholder Return: "Since May 1, 2009, Pinnacle West has delivered an **annualized TSR of 17.1%**, exceeding the annualized returns of the S&P 1500 Electric Utilities Index of 11.1% and the S&P 500 Index of 13.9%."[11] PNW had "**increased its dividend for the 7th consecutive year**, by 6%." They paid then-CEO Don Brandt **$14.5 million** for 2018 to make him the **3rd highest** paid CEO in Arizona.[12] Sadly, that same year, APS cut off power more than **110,000 times** for non-payment (including Stephanie Pullman's) and left **1 in 10 customers in the dark.**[13] In the tug of war that is ratemaking, when investors win, ratepayers lose! Mr. Walker knows this because he says, "those investors likely don't care about Arizona's future"[14] — and yet, he tries to gaslight us into believing that what's good for the Wall Street sharks is also good for Arizona's ratepayers.

<u>WACCy:</u> To prove his point, Mr. Walker reports in his white paper that at least $672 million in funding is provided to Arizona utilities every year, a vast majority coming from Wall Street investors, with the highest portion ($277 million) going to APS. Then, as a red herring, he concocts a doomsday scenario in which **"Arizona utilities won't be able to sell stock"**[15] and will be forced to increase their use of debt at **6% debt cost from 50% to 70% of their capital expenditure needs**. He then calculates the increase in Weighted Average Capital Costs as $3.7 million. The APS portion would be about $1.52 million in what he describes as "unavoidable costs to ratepayers." And the snake oil Mr. Walker peddles to the Commission is this: **Arizona will face dire consequences if the Commission doesn't approve imprudent SCR investments, reward APS with 10% ROE, and authorize $169 million in revenue requirement, an amount *111 times more* than the $1.52 million in doomsday costs.** Ignore him and install an email spam filter.



Yearly Investment	Cap Structure Debt	Debt Cost	Debt Payments Annual	Cap Structure Equity	Equity Cost	WACC Cost
$ 672,000,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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[7] Ariz. Corp. Comm'n v. State ex rel. Woods at: https://law.justia.com/cases/arizona/supreme-court/1992/cv-91-0082-sa-2.html

[8] Don Brandt Testimony to the ACC on 9/4/2019, 3:22:09 mark, at: https://azcc.granicus.com/player/clip/3657?view_id=3&redirect=true&entrytime=12129

[9] EIA average price data available at: https://www.eia.gov/electricity/sales_revenue_price/

[10] See the question by Paul Patterson of Glenrock Associates in Pinnacle West Q2 2021 Results - Earnings Call Transcript at: https://seekingalpha.com/article/4445686-pinnacle-west-capital-corp-pnw-ceo-jeffrey-guldner-on-q2-2021-results-earnings-call

[11] Pinnacle West 2019 Proxy Statement at: http://s22.q4cdn.com/464697698/files/doc_financials/annual/2019/2019-Proxy-Statement-Web-Ready.pdf

[12] Wiles, R. (2019, June 27). Pay for Arizona CEOs hit a new record in 2018 — see who made the most. *The Arizona Republic*. https://www.azcentral.com/story/money/business/economy/2019/06/27/arizona-highest-paid-ceos-set-new-earning-record-2018/1516937001/

[13] Roberts, L. (2019, June 6). APS cut power to poor customers 110,000 times last year while raking in eye popping profit. *The Arizona Republic*. https://www.azcentral.com/story/opinion/op-ed/laurieroberts/2019/06/06/arizona-public-service-rate-left-poor-customers-dark/1368624001/

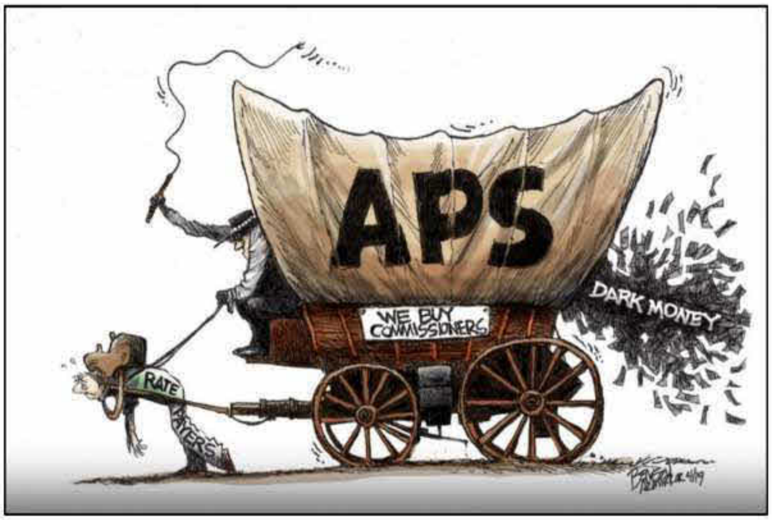
[14] "Theseus The Costs of Inconsistency June 2021", 5-6 at: https://theseusllc.net/articles-and-publications

[15] Fortis (FTS) and Pinnacle West (PNW) have 471 million and 113 million shares outstanding and a market cap of $21.6 billion and $8.7 billion, respectively.

From: *Abhay Padgaonkar*
Date: October 11, 2021
Docket: APS Rate Case (**E-01345A-19-0236**)
Re: **Ignore the equity analysts' temper tantrums. Chairwoman, please explain your refusal to lower rates.**

Dear Chairwoman Márquez Peterson and Commissioners:

In 2019, the brilliant Mr. Steve Benson had a retort[1] worth a thousand words to the Wall Street leeches whose equity research reports APS has filed[2] in response to Commissioner Kennedy's request.



Regardless of the rationale. Really?

Particularly ticked off is Shahriar Pourreza at Guggenheim who brags on his LinkedIn profile that he has "cultivated a deep Rolodex of 'C' Suite executive contacts and industry players" and that he is "a frequent private and public company board presenter."[3] Rolodex, huh? He ranted that ACC was "the single most value destructive regulatory environment in the country."[4] Clearly, the people Mr. Pourreza represents are *not* the ratepayers pulling the APS wagon with the yoke fastened over their necks. They are large, wealthy investors with **92%** ownership of the PNW shares[5] who are behind the wagon collecting the money that's falling out — like **$375 million in stock dividends in 2021** alone.

To Mr. Pourreza, who accuses the commissioners of misconstruing the fundamentals of utility ratemaking, "responsible" ratemaking means giving the utility *whatever* it asks for with no questions asked. That's right. He says: Never weaken the financial metrics **regardless of the rationale for doing so** — especially when they drive his credibility (#2 ranked stock picker in electric utilities) and his firm's profitability. No matter how badly APS screws up, neglects its customers, engages in unforgivable politicking, the Commission should never ever hold APS financially accountable — **regardless of the rationale for doing so**. Really? Looks like he forgot to read the rate case docket description: *"In the matter of the application of Arizona Public Service Company for a hearing to determine the fair value of the utility property of the company for ratemaking purposes, to fix a just and reasonable rate of return thereon, to approve rate schedules designed to develop such return."* Determining fair value of the property and fixing just and reasonable return sound like financial metrics to me. After all, why bother holding a hearing if the outcome must be preordained according to him to strengthen the financial metrics, which would inevitably mean higher customer rates?

> is able to make in its clean energy transition plans. **We have been disappointed to see that the ACC does not seem to understand that weakening Arizona Public Service's financial metrics, regardless of the rationale for doing so, is bound to ultimately drive up ratepayer bills despite offering no corresponding improvement in service to show for the higher costs.**

And, of course, Mr. Pourreza doesn't quantify how much the ratepayer bills will "ultimately" go up due to higher borrowing costs vs. immediately go down due to lower ROE and imprudent disallowances. **(PS: Notwithstanding his fearmongering, as a ratepayer, I will take the under on lower bills because of lower ROE and disallowances.)**

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[1] "APS Dark Money" cartoon by Steve Benson at: https://www.azmirror.com/cartoons/?modula-page=13
[2] APS Response to Comm. Kennedy at: https://docket.images.azcc.gov/E000016073.pdf?i=1633709496418
[3] Shar Pourreza LinkedIn Profile at: https://www.linkedin.com/in/sharpourreza
[4] Guggenheim Investment Report at: https://docket.images.azcc.gov/E000016064.pdf?i=1633709496418
[5] Pinnacle West Capital Corp at: https://www.cnbc.com/quotes/PNW?tab=ownership

Higher PNW Stock Price = Higher Rates

One thing is for sure: The lower the ROE and lower the imprudent expenses in rate base, the less the ratepayers will pay, the lower the APS profits will be, and lower will PNW stock price go. The haircut PNW stock took last week was precisely because the ratepayers would be paying ***less*** after a downward adjustment to the ROE (8.7% in adopted Olson #1 vs. the 10% APS request) and denial of certain expenses as it stands (e.g., SCR, AIAP, D&O) to be recovered from them. It's simple: Higher the PNW stock price, the higher the customer rates. And yet, Mr. Pourreza would have us drink the Koo-Aid that when you harm shareholders, you also automatically hurt ratepayers.

Evidence shows that shareholders win when the powerless customers are screwed. PNW stock shot up by **300%** from 2009-2018 on the back of APS's residential rates skyrocketing **30%** from 2008-2018.[6] That 10x relationship indicates that when for each 1% increase in rates, PNW stock rose by 10%. But when less money comes out of ratepayers' pockets, it makes the likes of Mr. Pourreza look bad. He had to eat crow and admit to the investors that he was late to the downgrade party and the $97 PNW price target he had talked them into just a few days ago had to be slashed by nearly $40 — not a good look for an equity analyst who brags about being the #2 ranked stock picker. Worse yet, every adopted amendment had bipartisan support (except Olson #6, which was superseded by O'Connor #1). In his temper tantrum disguised as a report, Mr. Pourreza couldn't blame any one commissioner or party. So, instead of admitting failure to read the writing on the wall that even greedy monopolies who put profits before people must suffer consequences, he lashed out at the commission.

PNW	SELL
Pinnacle West Capital Corporation Sector: Power & Utilities	
Rating Change	
Share Price	$74.18
Price Target	$58.00
Prior	*$97.00*

I'm sure Mr. Pourreza would have jumped for joy, praised the ACC, high-fived APS executives, and jacked up his price target if the ACC had authorized an 18.7% ROE, for example — something that would have absolutely destroyed the ratepayers. It probably didn't bother him that between 2013 and 2018, APS spent more than $182 million on lobbying, marketing, grants, and political spending – or $152 per customer.[7] He probably didn't care that APS disconnected service 382,500 times while paying $1.5 billion in dividends from 2015-2019. (Did he really think it would go unnoticed or will suffer no consequences?) No doubt he preferred the previous bought-and-paid-for commissions and likely agreed wholeheartedly with APS's assessment during its Q2 2015 PNW Earnings Call that the regulatory environment was **"increasingly constructive and supportive."** (That is utility industry lingo for rubberstamp commissions without a backbone.) Funny how that happens when APS spends dark money to buy regulators who are supposed to regulate it.

With that in mind, if lower profits force APS to tighten the belt on buying politicians, paying exorbitant executive compensation, and increasing the dividend for the ninth year in a row, by 6.1 percent, it would be a welcome change.

Every Wall Street firm disclosed potential conflict of interest that could affect objectivity of its report

Imagine how worthless your word would be if you as commissioners had a beneficial ownership of the Pinnacle West stock, received compensation from Pinnacle West for investment banking services, maintained a market in the stock, received compensation for non-investment banking services, provided non-securities services, and had a significant financial interest in Pinnacle West. **Some or all of these conflicts of interest exist with virtually every firm whose equity research report APS submitted.**

> Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 0.5% or more of any class of the common stock of Pinnacle West Capital Corporation.
>
> Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Pinnacle West Capital Corporation in the past 12 months.
>
> Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of Pinnacle West Capital Corporation
>
> Wells Fargo Securities, LLC maintains a market in the common stock of Pinnacle West Capital Corporation.
>
> Wells Fargo Securities, LLC, or any of its affiliates, intends to seek or expects to receive compensation for investment banking services from Pinnacle West Capital Corporation in the next three months.
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> Pinnacle West Capital Corporation currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided non-securities services to Pinnacle West Capital Corporation.
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>
> Wells Fargo Securities, LLC or its affiliates has a significant financial interest in Pinnacle West Capital Corporation.

For example, read this fine print of disclosures for Wells Fargo Securities. (This is the same Wells Fargo that was slapped with a **$250 million fine** last month for failure to pay back wronged customers because the Office of the Comptroller of the Currency said the bank had not met the requirements of a 2018 consent order.)

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[6] The 2021 Paul Walker Sequel. 'Wall Street Sharks II: Supervillains to Saviors' at: https://docket.images.azcc.gov/E000015407.pdf

[7] "APS political spending soared under Don Brandt. Will that change with a new CEO?" at: https://www.energyandpolicy.org/aps-political-spending-soared-under-don-brandt-will-that-change-with-a-new-ceo/

While the equity analyst's compensation may not be directly or indirectly tied to the specific recommendations (because that would be blatant and FINRA would come after them, again), as Goldman Sachs makes it clear in the fine print: **"Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues."**

Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues.

Translation: If the equity research analyst like Insoo Kim pisses off Pinnacle West, the company could take its business to a different firm and that could affect the firm's profitability and analyst's own compensation based on the profitability of the firm (not to mention the dirty looks the analyst will get from other divisions for losing them lucrative business). And that's exactly why the fine print aka "Important Disclosures" in virtually every report submitted by APS contains the nearly identical statement about **"a conflict of interest that could affect the objectivity of this report"** as follows:

BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

So, please ignore the temper tantrums by equity analysts and don't drink the Kool-Aid they are selling.

Chairwoman, can you please explain how your amendment and votes helped decrease rates?

"How Can We Achieve 9 Cents per Kilowatt-Hour for Arizona?" That was the question Chairwoman Márquez Peterson asked APS and parties to the pending APS Rate Case last year. Her letter stated: "A well thought out and concerted effort to **decrease rates will be absolutely necessary** if we're going to provide a meaningful catalyst for our citizens and economy to take off in the next five to ten years." A commissioner at the time, the Chairwoman sent out a press release[8] and issued a prepared statement to the media denying that she had prejudged the rate case.[9]

APS, whose 2020 rate at 11.72 cents/kWh was already **30%** higher than the 9 cents target, refused to comment, ignored her letter, and thumbed its nose by seeking another 5% boost and asking for $184 million more in the current rate case, (later reduced to $169 million). **But when push came to shove and when the Chairwoman was presented with two substantial opportunities (SCR disallowance and lower ROE) to decrease rates during the October 4-6 Special Open Meeting, the Chairwoman reversed herself and turned her back on the ratepayers.**

Stop SCRewing the Ratepayers

The ROO at 114 stated that the SCR investments were imprudent "[b]ecause of APS's failure to reevaluate the need for Units 4 and 5 and the SCRs over the intervening years since Decision No. 74876." The ROO also rebutted the "used and useful" pretext by stating: "But the fact that plant is used and useful, alone, is not tantamount to prudency." As a result, the ROO disallowed $460 million in rate base along with $25 million in depreciation and amortization expenses for a total of **$485 million disallowance**. RUCO had originally asked for a separate proceeding for SCRs *before* the ROO was published. But in its exceptions to the ROO on page 9, RUCO stated that it **"does not take exception to the ROO's recommendation"** and added that RUCO **"does not oppose the ROO's recommendation."**

And yet, the Chairwoman introduced **Márquez Peterson #3** amendment and used the power of the gavel to schedule it for a vote ahead of all the other amendments. It was unfortunately adopted. The amendment adopted RUCO's obsolete recommendation to hold the docket open for a separate proceeding. That wasn't the only problem with it. The amendment conflated the central issue of SCR prudency with the complex issue of securitization and tied it to the 2022 legislative session. The amendment asked for analysis to determine the reasonableness and prudency of the **ongoing** operating expenses associated with the 4CPP — when the ROO had concluded that prudency of the **original** SCR project investments had not been demonstrated in denying its recovery. The amendment declared that the evidence in the record was not sufficient, although ALJ Harpring who presided over the entire proceeding had rejected that claim.

The ROO had permanently eliminated $485 million, but by giving APS a new lease on life, the Chairwoman has raised a distinct possibility that some or all of the disallowance would work itself back into customers' bills — securitization or not.

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[8] Arizona Corporation Commission News Release on 11-17-20 at: https://azcc.gov/news/2020/11/17/commissioner-lea-m%C3%A1rquez-peterson-asks-aps-parties-to-pending-aps-rate-case-how-can-we-achieve-9-cents-per-kilowatt-hour-for-arizona

[9] Arizona Corporation Commissioner Lea Márquez Peterson says APS should cut rates by 25% at: https://www.azcentral.com/story/money/business/energy/2020/11/17/aps-should-cut-rates-25-says-arizona-corporation-commissioner/6312801002/

And commissioners must not forget this **Oct. 2013** exchange between Shar Pourreza (then at Citigroup) and then-CFO Jim Hatfield. Mr. Pourreza asked about the 4CPP litigation and **"pretty high capital requirements of these assets."** Jim Hatfield replied: **"So our plans <u>right now</u> are to just close the transaction and install SCRs in 2017 and 2018** and we think that will fit within the EPA guidelines."[10]

> OCTOBER 31, 2013 / 04:00PM GMT, PNW - Q3 2013 Pinnacle West Capital Corporation Earnings Conference Call
>
> ***Shar Pourreza - Citigroup - Analyst***
>
> Good. Got it and then just let me ask you one question on Four Corners. The transaction is going to close pretty, timing wise, pretty close to when the EPA can announce potential carbon legislation on existing assets.
>
> Can you give us an update on where the ACC or APS or the Governor is with the EPA on potential impacts? Because, obviously, there's going to be litigation as a result of it, but ultimately can lead to pretty high capital requirements of these assets? Can we get a status on that?
>
> ***Jim Hatfield - Pinnacle West Capital Corporation - CFO***
>
> Yes and just in terms of Four Corners and the EPA, I think the EPA came out earlier this year which was for new sources and their coming out with existing sources won't be for another additional amount of time. So our plans right now are to just close the transaction and install SCRs in 2017 and 2018 and we think that will fit within the EPA guidelines.

We now know that APS's Oct. 2013 plans to install SCRs never ever veered. Installation of SCRs was preordained. APS rammed through the SCRs after closing the SCE acquisition transaction for Units 4 and 5 and obtaining Decision No. 74876. Evidentiary record shows that APS never reevaluated the need for Units 4 and 5 and never evaluated a pre-2038 retirement of 4CPP until its 2017 IRP. It is already clear as the Sierra Club has shown and as the ROO has stated that APS never seriously considered an alternative to its plans.

Or did they? When APS was fearmongering to defeat Prop. 127 in Nov. 2018, APS told investors that customers would "bear the brunt" of forced early retirement of Palo Verde ($1.9 billion) and **4CPP ($1.3 billion)** and how that disastrous scenario would increase rate base estimates and likely **double customer bills**, based on Q2 2018 Earnings Call Transcript.

> **Pinnacle West Capital Corp.** *(PNW)* — Corrected Transcript
> Q2 2018 Earnings Call — 03-Aug-2018
>
> Further, customers would bear the brunt of our recovery of the costs associated with the forced early retirement of existing facilities. At the time of a possible early retirement, the remaining book value and other costs associated with the early shutdown for Palo Verde Generating Station and the Four Corners Power Plant could be $1.9 billion and $1.3 billion, respectively. While we expect the Steyer-funded ballot initiative would significantly increase our rate base estimates, customer bills in 2030 would likely be double today's bills.

Oh no! And yet, within months, APS announced its own "clean energy commitment" in early 2020 (*after* filing the rate case in Oct. 2019, of course) along with early retirement of 4CPP! **So here's the $485 million question: Did APS seriously consider 4CPP early retirement scenario? Answer: <u>Yes</u>, when it suited APS's false and fearmongering narrative. <u>No</u> (as in the rate case) when it could demonstrate that the $485 million SCR investment APS made was imprudent.**

Márquez Peterson #3 amendment to the ROO has let APS off the hook and SCRewed the ratepayers by depriving them of a permanent $485 million rate base reduction. <u>I STRONGLY URGE COMMISSIONERS KENNEDY AND OLSON TO ASK TO RECONSIDER THEIR "YES" VOTES FOR MÁRQUEZ PETERSON #3 AT THE NEXT OPEN MEETING.</u>

ROE must remain at 8.7% per Olson #1 amendment, but why the only "no" vote by the Chairwoman?

RUCO had presented evidence in the rate case proceeding that APS deserved a much lower ROE of 8.7%. The ROO recommended 9.16%. (Staff didn't file an exception because 9.16% was within their range of 9.3-9.5%. What?) I explained in detail why the ROO didn't go nearly far enough and that a much lower ROE was justified due to management inefficiency for which there is precedence.[11] Commissioners Olson and Kennedy both proposed amendments with RUCO's calculated Cost of Equity of 8.9% with a 20-basis point reduction justified by a long list of deficiencies in APS's customer service performance along with the language cited in Olson #1 here with which nobody (except APS) would disagree.

> "APS's ineffective 2016 Rate Case CEOP, its error with the Rate Comparison Tool, and the resulting poor customer satisfaction must be properly addressed. Based on the Overland Report, we have already determined that there were significant deficiencies in APS's 2016 Rate Case CEOP (Decision No. 77270). The overwhelmingly negative Alexander Report also identified substantial "shortcomings" and "deficiencies" in the CEOP. These deficiencies would explain much of the customer confusion and complaints after the new rates went into effect. As RUCO noted, the resulting poor customer satisfaction is reflected in APS's low ranking among West Region utilities in J.D. Power's 2019 rankings. Further, the EnergyTools Report confirmed that an error was introduced into the RC Tool 1 in February 2019, leading to incorrect recommendations until November 2019 when it was removed from APS's website. APS was forced to refund customers that were identified as potentially affected by the errors in the rate tool. APS later provided additional refunds as part of its settlement with the Arizona Attorney General's complaint against the Company related to its 2016 Rate Case CEOP and Rate Comparison Tool error. However, as the EnergyTools Report noted, because APS's website did not fully log the data of users of RC Tool 1, it is impossible to assess how many customers used it and were influenced by it in selecting rate plans. In addition to the requirements we include below, APS's poor customer service performance merits a 20-basis-point downward adjustment in ROE as recommended by RUCO and reflected in our resolution in Section (VI)(C)."

Olson #1 amendment reduces base rate revenue requirement by a sizable <u>$97 million</u>, according to my calculation.[12] Fortunately, Olson #1 passed 4-1, <u>but only Chairwoman Márquez Peterson voted against it!</u>

[10] APS Response to Comm. Kennedy's Administrative Subpoena, K-ACC00021, at: https://docket.images.azcc.gov/0000197007.pdf#page=61

[11] "The ROO Is a Good Start, but It Doesn't Go Nearly Far Enough" at: https://docket.images.azcc.gov/E000015847.pdf

[12] The $34.482 million reduction due to 0.46% ROE decrease (9.16% in the ROO vs. 8.7% in Olson #1) equates to **$97.45 million** reduction in base rate revenue requirement for the 1.3% reduction (APS's 10% request vs. 8.7% adopted in Olson #1)

In explaining why she refused to lower ratepayer bills by $97 million when she believed last year that decreasing rates substantially will be "absolutely necessary," the Chairwoman said: "I don't think this ROE adequately recognizes the financial realities of our transition to clean energy."

First, it must be noted, that the Chairwoman has been throwing every possible obstacle in our transition to clean energy. Her rhetoric about clean-energy rules doesn't match reality. She has reversed her position from a year ago and has voted down a bipartisan set of clean-energy rules twice in one month. By calling standards a "blank check" she relinquished the primary role of the ACC to serve as utility regulators.[13]

Second, there is no evidence — other than fearmongering by APS about the sky falling — that the company will be unable to raise capital for worthy and prudent projects. In fact, Chairwoman's support for clean energy standards — rather than her failed attempt to dilute them to "goals" — would provide greater financial certainty and facilitate raising capital for transition to clean energy. That would be a much better approach compared to awarding fatter profit margins to the fat cats.

Third, if APS is unable to raise the necessary capital, then the ACC needs to bring in other competitive suppliers who can — an effort that the Chairwoman has stymied. Retail competitors will be thrilled to provide electricity for 8.7% ROE. And I hope the Chairwoman didn't fall for Mr. Guldner's substation background or "I-wish-I-could-change-it-but-I-can't" line. While Mr. Guldner certainly can't change the past as fast as he can change his background, he was on center stage through every one of the APS shenanigans — not to mention the fact that he was Don Brandt's right-hand man throughout. The well-deserved hammering APS has received has not yet hit where it hurts most — in its pocketbook.

Chairwoman, can you please explain to APS ratepayers what meaningful levers the Commission has to lower rates — other than ruling unnecessary expenses like SCRs imprudent and lowering the Return on Equity, and why you reversed yourself in not supporting them, especially when you had said that decreasing rates substantially will be absolutely necessary to provide a meaningful catalyst for our citizens and economy to take off in the next 5-10 years?

And maybe Arizona Chamber and GPEC can explain to ratepayers how raising utility rates is in the best interest of Arizona's residents, all businesses (except APS), and economic growth.

Finally, to counter the Wall Street analysts' self-serving, Chicken-Little reports, I am attaching as Attachment 1, a recent column by Laurie Roberts in the Arizona Republic that takes a somewhat different position.[14] Ms. Roberts says, **"Not so long ago, the five-member Corporation Commission amounted to a wholly-owned subsidiary of APS,"** and calls Wednesday's decision to cut APS's profitability "**astonishing**." She adds: **"Finally, we have utility regulators who are willing to regulate utilities."**

> **APS may get ... a rate cut? THIS, Arizona, is Exhibit A in why your vote matters**
>
> *OPINION: APS is looking at a rate cut? Finally, we have utility regulators who are willing to regulate utilities.*
>
> **Laurie Roberts** Arizona Republic
>
> Published 12:34 p.m. MT Oct. 7, 2021 | **Updated 1:33 p.m. MT Oct. 7, 2021**

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[13] "Lea Marquez Peterson's rhetoric about clean-energy rules doesn't match reality" at: https://www.azcentral.com/story/opinion/op-ed/2021/06/29/clean-energy-rules-no-blank-check-utilities/5326491001/

[14] APS may get ... a rate cut? THIS, Arizona, is Exhibit A in why your vote matters at: https://www.azcentral.com/story/opinion/op-ed/laurieroberts/2021/10/07/aps-may-get-rate-cut-yes-arizona-your-vote-really-does-matter/6039399001/

ATTACHMENT 1

azcentral.

LAURIE ROBERTS | Opinion *This piece expresses the views of its author(s), separate from those of this publication.*

APS may get ... a rate cut? THIS, Arizona, is Exhibit A in why your vote matters

OPINION: APS is looking at a rate cut? Finally, we have utility regulators who are willing to regulate utilities.

Laurie Roberts Arizona Republic

Published 12:34 p.m. MT Oct. 7, 2021 | **Updated 1:33 p.m. MT Oct. 7, 2021**

A funny thing happened this week as Arizona Public Service executives were marching toward yet another money grab from its long-suffering customers.

They ran smack into the state's utility regulators, who, at long last, appear ready to actually regulate the state's largest and most powerful utility.

Instead of the usual rubber stamp, APS execs this week bounced off a rubber wall.

Instead of agreeing to APS's request to raise rates by an average of nearly 5%, it appears the Republican-dominated Arizona Corporation Commission may actually cut the amount that APS can charge its customers.

Oh, it may not mean that you'll actually pay less, given other cost surcharges the utility is allowed to automatically increase and pass along to its customers.

But you won't wind up having to pay an average of 4.9% more in the base rate.

That thump you just heard? That's the board of directors of Pinnacle West Capital Corp., the parent company of APS, hitting the marble floor in a dead faint.

It just shows what can happen when voters start paying attention.

Not so long ago, the five-member Corporation Commission amounted to a wholly-owned subsidiary of APS.

The monopoly utility's profits soared after it spent nearly $15 million — most of it secretly thanks to the state's liberal dark money laws — to stack the commission with friendly faces in

2014 and 2016.

It immediately paid off.

In 2017, the commission rubber stamped a $95 million APS rate hike, one that was sold to us as an average 4.5% boost. But fully a third of APS's residential customers, about 300,000 households, saw rate hikes double and even triple that as the utility was sucking in far more than its allowable cash grab.

Even so, regulators declined in 2019 to reverse the rate hike, instead ordering APS to issue refunds and file a new rate case.

Which brings us to now, when APS is asking for *even more* of our money. This time, it wants $169 million, boosting rates by an average of 4.9%

But 2021 is not 2017, thanks to two election cycles in which voters installed a whole new Corporation Commission.

After three days of hearings, the commission on Wednesday settled a key element of that rate request, approving a sizable cut in the profits that APS will be able to score off of its customers. The commission voted 4-1 to slash the amount the utility can earn on its investments from 10% to 8.7%.

That, alone, should save customers $34 million a year, according to Commissioner Justin Olson.

APS CEO Jeff Guldner on Wednesday pleaded with the commission not to cut its return on equity, saying it'll impact the utility's ability to finance new projects and ultimately cost customers more.

Guldner is not the architect of APS's past schemes. He replaced longtime Pinnacle West/APS CEO Don Brandt who in 2019 suddenly found he had a hankering to retire after his political skulguggery was outed and his company's reputation was shredded — though its profits were considerably padded.

Guldner, who vowed to stay out of Corporation Commission races, told the commission he's working to change the culture and direction of APS but can't change the past.

"I wish I could change it, but I can't," Guldner said.

Nor can the rest of us forget it just yet.

While I don’t pretend to know much about the intricacies of utility finance, I do know that APS has for years been allowed to charge its customers substantially more than other ultilities.

That it snookered voters into electing puppet commissioners and as the result, its profits — and our utility bills — soared.

Now we finally have a commission that not only does understand the intricacies of utility finance, it also understands its considerable responsibility to the utility's captive customers.

The commission still has a few decisions to make before a final vote on APS's rate hike request but for all you voters who wonder whether your vote matters?

Give yourself a high five because this is a sight to behold.

Wednesday’s decision to cut APS’ profitability is … well, there really is only one word for it.

Astonishing.

Remember this next year, as you ponder whether your vote counts.

Reach Roberts at laurie.roberts@arizonarepublic.com. Follow her on Twitter at @LaurieRoberts.

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From: Abhay Padgaonkar
Date: October 18, 2021
Docket: APS Rate Case (**E-01345A-19-0236**)
Re: **The Fitch Ditch: What's the Ratepayer Impact (Negligible) and Who is to Blame (APS)?**

Dear Commissioners,

Have you ever spent $50 to save $1? Hopefully not, because it makes no sense. But that is exactly what APS is scaremongering you and the ratepayers into doing. APS wants you to act as if Arizonans elected Dan Lowrey of S&P Global, Daniel Neama of Fitch, and Shar Pourreza of Guggenheim as the commissioners. This comprehensive research and analysis answers many important questions:

- Who other than the ACC has a mandate to prescribe just and reasonable rates? (Nobody)
- What exactly does "hamper our ability" mean? (Nothing)
- Who is to blame for the fallout and downgrades? (APS)
- What does "constructive" regulatory environment mean? (The ACC is in APS's pockets.)
- Why Georgia (AA2 state per RRA) must NOT be on our mind? (It's in the Ratepayer Hall of Shame)
- How could APS avoid future downgrade and increase FFO despite lower ROE? (Tighten the belt).

Who other than the ACC has a mandate to prescribe just and reasonable rates? **(Nobody)**

APS is creating higher borrowing cost as a red herring on the back of Fitch,[1] Guggenheim,[2] and other downgrades. Credit rating firms like Fitch or equity research firms like Guggenheim do not represent ratepayers' interest. Quite the opposite. They represent interests of lenders and shareholders without ever caring whether rates are just and reasonable per article 15, section 3 of the Arizona Constitution. We already know that APS executive compensation has disproportionate weighting on shareholders' interests, but even Pinnacle West directors are required to hold or control enough shares to "align their personal financial interests with those of the Company's shareholders." So, who among the credit rating agencies, equity research firms, APS executives, or Pinnacle West Board of Directors is incentivized to advocate for and safeguard ratepayers' interests? **NOBODY**.

The Commission, however, not only has broad powers, but a constitutional mandate to prescribe just and reasonable rates.[3] And as the Supreme Court of Arizona said, the Commission was not designed to protect powerful public service corporations and their management but, rather, was established to protect powerless citizens.[4] We must never lose sight of that despite all the gaslighting and predictions of the sky falling on Arizonans because APS may earn 1% less revenue.

How much is APS's revenue request vs. higher borrowing cost? **($169 mill. vs. $3.4 mill. or 50:1)**

Jeff Guldner wrote to the Commission: "As I stated in the Open Meeting, these downgrades of the Company's credit rating will result in higher borrowing costs for the Company—costs which will be borne by our customers, and which will hamper our ability to build the infrastructure necessary to support economic growth."[5]

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[1] APS/Guldner Letter to the ACC with Fitch report on 10/12/21 at: https://docket.images.azcc.gov/E000016137.pdf
[2] APS/Guldner filing of Guggenheim report on 10/07/21 at: https://docket.images.azcc.gov/E000016064.pdf
[3] Arizona Constitution, Article 15 Section 3 at: https://law.justia.com/constitution/arizona/15/3.htm
[4] CORP. COM'N v. State Ex Rel. Woods at: https://law.justia.com/cases/arizona/supreme-court/1992/cv-91-0082-sa-2.html
[5] APS/Guldner Letter to the ACC with Fitch report on 10/12/21 at: https://docket.images.azcc.gov/E000016137.pdf

Fair enough, but making a mountain out of a molehill is the very definition of scaremongering. How much are the higher borrowing costs? Based on what assumptions? How do the higher borrowing costs compare to the $169 million yearly revenue increase sought by APS? Is that a good trade-off for the ratepayers? What exactly does "hamper our ability" mean? Mr. Guldner fails to raise, let alone answer any of these questions.

The Fitch report stated that PNW is targeting an average annual utility capital expenditure of **$1.5 billion** in 2021-2023. So let's analyze these questions Mr. Guldner chose to ignore and determine how much higher the borrowing costs would be and how they compare to the revenue increase sought by APS. That way, the ACC can decide for itself — given its constitutional mandate — which scenario would set fair and reasonable rates and whether it would be an equitable trade-off.

The following table calculates annual debt payment for the Baseline scenario (Olson #1 Amendment) for $1.5 billion capital expenditure, assuming conservatively that APS will fund it from external debt financings and equity infusions rather than from internally generated cash flow. It then calculates the annual debt payment for the Credit Downgrade scenario (BBB+), assuming a 50 basis point (i.e., half a percentage point) increase in debt cost over the 4.10% rate in the Baseline scenario. (<u>Note:</u> The weighted-average interest rate on long-term debt at year-end 2020 was only 3.86%.) The analysis then computes higher borrowing cost as the difference between the annual debt payments under the two scenarios. Finally, it compares APS's requested revenue increase to the higher borrowing cost to calculate a ratio of the two.

Ln	Scenario	Yearly Investment ($000)	Capital Structure Debt %	Debt Cost	Debt Payments Annual ($000)	Cap Structure Equity %	Equity Cost	Equity Payments Annual ($000)	WACC Cost
1	Baseline (Olson #1, P2)	$1,500,000	45.33%	4.10%	**$ 27,878**	54.67%	8.70%	$ 71,344	6.61%
2	BBB+ (Credit Downgrade)	$1,500,000	45.33%	4.60%	**$ 31,278**	54.67%	8.70%	$ 71,344	6.84%
3	Higher Borrowing Cost (L3 - L2)				**$3,400**				
4	APS Requested Revenue Increase				**$169,000**				
5	**Requested Revenue Increase vs. Higher Borrowing Cost (L4/L3)**				**50:1**				

Based on this analysis, this is what Mr. Guldner is telling the ACC: *If you don't authorize $50 (or $169 million revenue increase), the borrowing cost may go up by $1 (or $3.4 million).* **But isn't it better for ratepayers to pay $1 in possibly higher borrowing costs rather than a guaranteed $50 rate increase?** (Even a 100 BPS debt cost increase from further downgrade, if one were to occur, would still result in a **25:1** ratio.)

Notwithstanding the fearmongering by APS, as a ratepayer, I will take the under on lower bills because of lower ROE and disallowances any day.[6] That's because a lower ROE at 8.7% and $485 million in SCR disallowance in the ROO along with the Commission-adopted amendments will **save ratepayers <u>50 times</u> more** than higher borrowing costs that may result from it!

[6] "Ignore the equity analysts' temper tantrums..." at: https://docket.images.azcc.gov/E000016100.pdf

Chairwoman, please note that the $1.5 billion of estimated capital expenditure covers **all** the generation, transmission, distribution, and other needs, **including clean energy transition**, according to APS.[7] In short, the concern the Chairwoman had as the only vote against Olson #1 — possibly from falling prey to APS's fearmongering — that the 8.7% ROE may not adequately recognize "the financial realities of our transition to clean energy" is simply not based in reality.

Capital Expenditures
(dollars in millions)

	Estimated for the Year Ended December 31,		
	2021	2022	2023
APS			
Generation:			
Clean:			
Nuclear Generation	$ 114	$ 116	$ 125
Renewables and Energy Storage Systems ("ESS") (a)	200	276	281
Other Generation (b)	203	190	187
Distribution	577	556	549
Transmission	185	181	179
Other (c)	221	181	179
Total APS	$ 1,500	$ 1,500	$ 1,500

Finally, any refinancing of upcoming LTD maturities are minimal in case APS decides to use that as an excuse. As the APS long-term debt schedule[8] here shows, LTD maturities don't even begin until **June 2024** and amount to only **$1.5 billion** for the next 12 years until 2033.

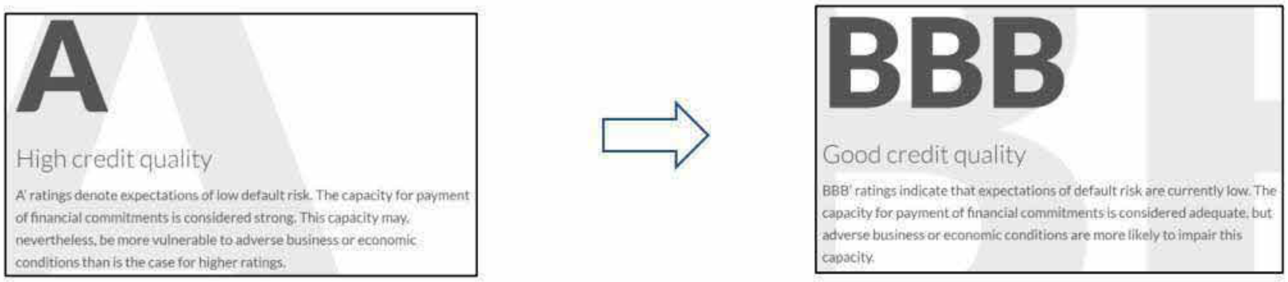
LONG-TERM DEBT SCHEDULES
(DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,	2020
3.35% unsecured notes due June 15, 2024	250,000
3.15% unsecured notes due May 15, 2025	300,000
2.55% unsecured notes due September 15, 2026	250,000
2.95% unsecured notes due September 15, 2027	300,000
2.60% unsecured notes due August 15, 2029	405,000

Thus higher borrowing cost is nothing but a red herring by APS.

What exactly does "hamper our ability" mean? **(Nothing)**

The one-notch Fitch downgrade from A- to BBB+ still represents investment grade creditworthiness. In fact, it is good three notches *above* non-investment grade. Although APS would like all to believe that the sky is falling, the rating downgrade is unlikely to negatively affect APS's ability to secure credit at competitive rates — especially considering that issuance of loans even from companies with speculative-grade credit ratings hit a one-year high, according to the Wall Street Journal.[9]



Sure, the debt cost may go up slightly, but as the analysis above shows, that is a far better trade-off for ratepayers than guaranteeing 50-times more in revenue to APS to support imprudent SCR investments and higher profit margins!

Who is to blame for the fallout and downgrades? **(APS)**

As the former ACC Chair accurately summarized earlier this year: **"I think you would be hard-pressed to find a utility that behaved as badly as APS did in the last decade."**[10] That assessment must be kept in mind when APS and the Wall Street firms whine about APS receiving below-average ROE. Even the Fitch report[11] summed up APS's self-inflicted wounds in explaining the credit downgrade as follows:

[7] PNW Form 10-Q, P. 94 at: http://s22.q4cdn.com/464697698/files/doc_financials/2021/q2/Final-PNW-06.30.2021-10Q.pdf
[8] APS Long-Term Debt Schedule at: http://s22.q4cdn.com/464697698/files/doc_downloads/fixed_income/2021/PNW-LTD-Schedule.pdf
[9] Junk-Debt Sales Soar Toward Record Year at: https://www.wsj.com/articles/junk-debt-sales-soar-toward-record-year-11632043982
[10] "The 'Darth Vader' of electric utilities" at: https://a-matter-of-degrees.simplecast.com/episodes/the-darth-vader-of-electric-utilities-vXAlpmPC
[11] Fitch Downgrades Pinnacle West at: https://www.fitchratings.com/research/corporate-finance/fitch-downgrades-pinnacle-west-capital-arizona-public-service-to-bbb-outlooks-remain-negative-12-10-2021

In 2019, both PNW and APS were assigned an ESG relevance score of '4' for Social issues following complaints of excessive bills by customers following the implementation of time-of-use rates. Regulators have found that customer education and outreach efforts were insufficient, which has led to increased regulatory scrutiny and the absence of rate recovery.

Who created a massive rate migration to TOU rates? Who botched the customer education and outreach plan to accomplish it? Who ignored customer complaints and denied that the bills were excessive? Who created a faulty rate comparison tool that steered customers to more expensive plans? Who blocked Overland from having direct access to the rate comparison tool? Who was planning to quietly remove the faulty rate comparison tool over the weekend when the scandal exploded on TV and newspapers? Who repeatedly denied overearning from placing hundreds of thousands of customers not on their most economical plans? Who then reached a $25 million settlement with the AG's office for 225,000 APS consumers who were not on their most economical plan? Who had bottom-of-the-barrel ranking in the J.D. Power survey in the West — and even worse score than PG&E — while tying for the second-to-last place among 58 large utilities nationally? Who declared the J.D. Power survey as irrelevant and paid huge bonuses based on an internal measure? Who rationalized, deflected, or defiantly denied all these deficiencies? (**APS, APS, and APS**.)

What does "constructive" regulatory environment mean? **(The ACC is in APS's pockets.)**

Who hijacked the ACC by interfering in two straight elections, including a dark-money campaign that was hidden for five years until forced to disclose? But Fitch or Moody's or S&P don't care about ratepayers or just and reasonable rates. Hence some historical context with PNW credit ratings is necessary to show what they do care about. The Fitch ratings history[12] shows that PNW had BBB' credit rating from 2000-2015. There were two major inflection points (in May 2015 and June 2019) that culminated in the latest rating downgrade:

(1) <u>May 2015 Upgrade:</u> The Fitch rating was upgraded to A- in May 2015 citing "**constructive** regulatory environment in Arizona" and "continued **supportive** regulatory regime in Arizona."[13] It came merely months after APS had spent millions in dark-money campaign during the 2014 election to elect two commissioners to the ACC — an election in which Comm. Kennedy was defeated.

	21-Dec-2007 BBB- Revision Outlook	30-Jan-2006 BBB- Downgrade	06-Jan-2006 BBB Rating Watch On	06-Dec-2005 BBB Revision IDR	30-Mar-2005 BBB Affirmed	09-May-2003 BBB Affirmed	04-Dec-2002 BBB Rating Watch On	25-Oct-2000 BBB New Rating

1	28-May-2015 A- Upgrade	01-Oct-2014 BBB+ Affirmed	30-May-2014 BBB+ Affirmed	07-Apr-2014 BBB+ Affirmed	17-May-2013 BBB+ Upgrade	21-May-2012 BBB Upgrade	25-May-2011 BBB- Affirmed	26-May-2010 BBB- Revision Outlook	09-Apr-2009 BBB- Affirmed

2	26-Jun-2019 A- Affirmed	26-Oct-2018 A- Review - No Action	18-Jun-2018 A- Affirmed	18-Oct-2017 A- Review - No Action	20-Jun-2017 A- Affirmed	27-Sep-2016 A- Review - No Action	26-May-2016 A- Affirmed	30-Sep-2015 A- Review - No Action

NOW	12-Oct-2021 BBB+ Downgrade	15-Oct-2020 A- Review - No Action	25-Jun-2020 A- Affirmed

[12] Fitch Rating History of PNW at: https://www.fitchratings.com/entity/pinnacle-west-capital-corporation-80464127#ratings

[13] Fitch Upgrades PNW and APS's IDRs to 'A-' at: https://www.fitchratings.com/research/corporate-finance/fitch-upgrades-pnw-aps-idrs-to-a-outlooks-revised-to-stable-28-05-2015

Enabled by corrupt, APS-friendly commission, APS's residential rates shot up by 11% from 2015-2018, reaching 14.16 cents/kWh **despite** $143 million in TEAM refunds due to lower federal corporate income tax rate — and aided by the disastrous 2017 rate increase, resulting in an unprecedented customer uproar and backlash in its aftermath. The rate base in the 2019 rate case is **33%** higher than in the 2016 rate case merely three years ago.

2014	2015	2016	2017	2018
12.77	12.93	13.11	13.57	14.16*

(2) June 2019 Negative Outlook: The Fitch outlook became **negative** for the first time since 2009.[14] Fitch stated that it remained concerned about "recent changes to the Arizona Corporation Commission" — referring to the elections of Comm. Kennedy and Olson in 2018 — and initiation of a staff review regarding implementation of retail rates approved in APS's 2016 rate case and potential over-earnings at APS. The negative outlook coincided with ACC's **Decision No. 77270** upon completion of the Overland Rate Review, in which the Commission found that APS's CEOP was *not* reasonable and understandable, ordered APS to provide customers with pro forma billing, and ordered APS to file a new rate case. The outlook turned negative as soon as Fitch figured out that fallout from APS's years of mischief had begun.

> Rate Review Completed: The ACC recently completed its review of APS's rates. While there were no material findings of overearning, the commission ordered the utility to file its next GRC by Oct. 31. The rate review was prompted by numerous customer complaints of excessive bills following the implementation of Time-Of-Use rates in APS's last GRC. The findings of the review were mixed and although the ACC concluded that the utility's customer outreach efforts were insufficient (given that more than half of its customers didn't choose their most economical rate plan) they also found that many customers did not change their consumption habits as expected.

Bottom Line: 1) When the ACC was in APS's pockets ("constructive" regulatory environment), PNW credit rating was upgraded. 2) When the ACC began challenging APS's skullduggery ("regulatory risk" or "regulatory headwinds") the outlook turned negative. 3) When it appeared earlier this month that the ACC may finally hold APS accountable to the ratepayers, the credit rating was downgraded.

Why Georgia (AA2 state per RRA) must NOT be on our mind? **(It's in the Ratepayer Hall of Shame)**

What do RRA's State regulatory rankings mean? "An Above Average designation indicates that, in RRA's view, the regulatory climate in the jurisdiction is relatively more constructive than average, **representing lower risk for investors that hold or are considering acquiring the securities issued by the utilities operating in that jurisdiction**."[15] Conversely, lower risk for investors translates to higher risk and unjust and unreasonable rates for captive ratepayers. That's why RRA's "downgrade" of Arizona is a huge compliment to the ACC and a big boost for the ratepayers. RRA's State Regulatory Evaluation is a Ratepayer Hall of Shame because in a top-ranked state like **Georgia**, regulators prostrate themselves in front of the powerful monopoly. APS wants you to be like them.

The Vogtle Boondoggle in Georgia: Nearly 100% cost overrun of billions after 6-year delay

- Southern Co. again admitted what outside experts have been telling regulators for months — its **$27 billion-plus** Vogtle project at the complex outside Augusta will take longer and cost more than previously estimated.[16]
- Vogtle's expansion, meanwhile, has been riddled with problems and delays since the PSC approved the project in 2009. The two new reactors were **originally slated to be in operation in**

[14] Fitch Outlooks to Negative at: https://www.fitchratings.com/research/corporate-finance/fitch-affirms-pinnacle-west-capital-arizona-public-service-idrs-at-a-outlooks-to-negative-26-06-2019

[15] Report from S&P Global Intelligence division RRA filed by APS at: https://docket.images.azcc.gov/E000016172.pdf

[16] "Georgia Nuclear Plant Cost Tops $27B As More Delays Unveiled" at: https://www.wabe.org/georgia-nuclear-plant-cost-tops-27b-as-more-delays-unveiled/

2016 and 2017, respectively. Now, it projects the second quarter of **2022** for the first, and the first three months of **2023** for the last reactor.[17]

- In June, the U.S. Nuclear Regulatory Commission began a **special inspection** to determine why so much of the electrical wiring in the plant had to be redone.

- But for Georgia Power and its parent Southern Co., the extra costs could represent a huge financial windfall: billions of dollars in extra profit. <u>That's because the electric utility's profit from the sprawling project is tied largely to how much it spends, not whether it stays within budget.</u>
- Rates have gone up 3.4% to pay for earlier costs and Georgia Power projects rates will rise another 6.6% for a total increase of **10%**.
- Georgia Power customer will have paid over **$850** in such fees <u>before</u> the project is completed. Then their bills are expected to rise higher to cover all "prudent" and "reasonable" construction costs and company profits that rise with those costs.

- **Stock analysts, bond-rating agencies often praise regulators' "<u>constructive</u>" relationship with Georgia Power. In late 2019, the PSC agreed to let Georgia Power collect <u>one of the highest rates of return</u> among its peers around the nation.**
- **<u>BLATANTLY SHAMELESS:</u>** On Dec. 21, 2017, the day the PSC voted to allow construction to continue at Plant Vogtle, Georgia Public Service Commissioner Tim Echols emailed Paul Bowers, the CEO of Georgia Power. **"Paul, not to get ahead of ourselves, but when we cut the ribbon for Unit 3, I want to see the President of the United States holding the scissors, and you and me on each side of him. Deal?**" Echols wrote. **"Deal!!!"** Bowers responded.[18]

<u>Commissioners, are you willing to engage in such shamelessly anti-ratepayer activities to get a higher state ranking from RRA?</u> (Arizona's ratepayers do <u>not</u> want the ACC to become the Corruption Commission ever again.)

How could APS avoid future downgrade and increase FFO despite lower ROE? (Tighten the belt)

The Fitch report says: "Absent future regulatory relief or <u>management action</u> to rebalance its capital structure, Fitch believes FFO leverage could deteriorate to 5.0x or more for PNW and APS in 2023."

Of course, Jeff Guldner left out the part about any management action. APS would rather take the easy way out by getting "regulatory relief" on the backs of the captive ratepayers so management doesn't have to tighten the belt. FFO Leverage simply measures Total Debt in relation to Funds From Operations (FFO), of which Net Income is a major component. Higher debt and/or lower Net Income due to lower ROE would make FFO Leverage ratio worse.

[17] "Nuclear cost overrun could mean billions in extra Georgia Power profit" at: https://www.ajc.com/news/business/nuclear-cost-overrun-could-mean-billions-in-extra-georgia-power-profit/YIA3T3YHZRHI5A7GCZHREIXCPE/

[18] "Watchdog Group: Ga. Public Service Commissioner Too 'Cozy' With Ga. Power" at: https://www.wabe.org/watchdog-group-ga-public-service-commissioner-cozy-ga-power/

But what's the big deal? The $111.431 million decrease in Base Revenue Requirement in the ROO translates to **$3.6 million in Total Revenue Increase** in reality when taking Base Rate <u>and</u> Adjustors into account, and as APS explained to its own investors below:[19]

	APS (Rebuttal)	ACC Staff (Surrebuttal)	RUCO (Surrebuttal)	ALJ (ROO)
Total Revenue Increase (Base Rate and Adjustors) ($MM)	$169 5.1%	$59.8 1.8%	$(50.0) (1.5)%	$3.6 0.1%
Base Rate Increase ($MM)	$41	$(55.2)	$(165.0)	$(111.4)

15	Required Increase/(Decrease) in Base Revenue Requirement *(line 14 + line 12)*	($111,431)	($151,456)

For the same reason, the **$151.456 million** decrease in Base Revenue Requirement above[20] due to approved Commissioner amendments represents only about a **$36 million** decrease in Total Revenue from current levels. For crying out loud, Pinnacle West spent more than that to defeat the clean energy ballot initiative. So what's the big deal about the sky falling from $36 million revenue decrease, especially when the Test Year Operating Income was determined to be **$672 million**? (Once again, shady adjustor transfers are obfuscating reality just like in the last rate case.)

Regardless, instead of eyeing ratepayers' pockets to pick, PNW/APS should focus on tightening the belt given the new normal. Here are some ideas for lowering debt and/or increasing Net Income to improve FFO Leverage and avoid further credit rating downgrade:

STOP borrowing hundreds of millions for imprudent investments like SCRs and ensure that watertight RFP processes are in place without obstacles/favoritism to get the lowest possible bids.[21]

STOP creating an illusion of growth in worthless IRPs that are contradicted by decade-long flat retail sales and flat peak demand so you can overbuild and maintain 22.8% reserve margin vs. the required 15% reserve margin over 2010-2020.[22] Reality: "For the three years 2018 through 2020, annual retail electricity sales were about **flat**, adjusted to exclude the effects of weather variations."[23]

STOP playing games with the early retirement of filthy plants like Four Corners by resurrecting them and creating even greater stranded assets that will remain on the ratepayer's heads for decades.

STOP buying politicians, doing insidious lobbying, paying for worthless "goodwill" advertising, and sponsoring what appears to be every other event in the state. Not interfering in ACC elections isn't enough. APS filings in response to the subpoena showed that between 2013 and 2018, APS reported spending more than **$182 million** on political spending, marketing, grants, and lobbying as follows: Political Campaigns: $72,182,150; Marketing and Advertising: $59,026,376; Grants and Corporate Giving: $46,769,262; Lobbying: $4,550,238.[24]

[19] "The ROO Is a Good Start, but It Doesn't Go Nearly Far Enough" at: https://docket.images.azcc.gov/E000015847.pdf
[20] APS calculation of revenue requirement impact at: https://docket.images.azcc.gov/E000016162.pdf
[21] Enphase Letter regarding APS 2021 RFP at: https://docket.images.azcc.gov/E000015902.pdf
[22] False Choice Between SCRs and Reliability at: https://docket.images.azcc.gov/E000016026.pdf
[23] Pinnacle West 2020 Form 10-K, Page 37
[24] APS political spending soared under Don Brandt. At: https://www.energyandpolicy.org/aps-political-spending-soared-under-don-brandt-will-that-change-with-a-new-ceo/

STOP stashing voluntary pension contributions to fatten the rate base, especially when the minimum required contributions for the pension plan have been zero. APS will have made **$700 million** in voluntary contributions to the pension plan from 2015-2021, when the minimum required contributions for the pension plan had been zero.[25]

STOP announcing ever-increasing dividends, rising at a ridiculous 6% clip year after year, to pump up the stock price, thereby providing even more perverse incentive to increase the rate base at the same or even higher percentage. The rate base in the 2019 rate case shot up **33%** higher in just three years. Value Line has called PNW's dividend payout rate as "nearly one percentage point above the utility average." APS paid nearly **$1.6 billion** in dividends from 2016-2020 as follows: $281.3 million (2016); $296.8 million (2017), $316.0 million (2018); $336.3 million (2019); $357.5 million (2020) and APS is on track to pay **$375 million** in 2021 — a massive **33%** increase vs. 2016.

STOP setting lowballed earnings targets for APS and Pinnacle West so that actual earnings for incentive plan purposes can be **42%** and **54%** above the 2020 target payouts and then crediting hot weather for that massive overage in 2020 earnings.[26]

STOP paying exorbitant Executive Compensation that is untethered from meaningful customer metrics. Convening a customer advisory board and stakeholder committee isn't enough. There is something very wrong with an "incentive" plan design when the CEO and President can make **141.1%** and **103.7%** of their salaries as cash bonuses, respectively, even when they were awarded <u>0%</u> payout for the Customer Service business unit in the aftermath of the rate comparison tool fiasco and an unprecedented AG settlement.[27]

2020 Incentive Plan Opportunities

NEO	Threshold (% of Salary)	Target (% of Salary)	Maximum (% of Salary)	2020 Actual (% of Salary)	2020 Actual ($)
Mr. Guldner	27.50	110	220	141.1	1,551,946[(1)]
Mr. Hatfield	18.75	75	150	99.9	699,090
Mr. Geisler	15.00	60	120	83.9	318,840
Mr. Froetscher	22.50	90	180	103.7	559,848[(1)]
Ms. Lacal	16.25	65	130	98.7	563,394
Mr. Smith	16.25	65	130	86.7	528,812

(1) The Committee did not award any incentive payout for Messrs. Guldner and Froetscher for the Customer Service business unit under the APS Incentive Plan in connection with APS's settlement with the Arizona Attorney General related in part to APS's Customer Education and Outreach Plan (see Note 11 of the Notes to Consolidated Financial Statements in the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for additional information). The amount in this column reflects a zero payout for this business unit.

<u>BOTTOM LINE:</u>
These and other tangible actions would signal a real culture change and begin to restore APS's lost trust and credibility. Without them, APS will have no one to blame but itself in case of further downgrade of the company's credit rating — not the Commission and certainly not the ratepayers.

[25] Pinnacle west Form 10-K reports to the SEC at: http://www.pinnaclewest.com/investors/reports/sec-filings/default.aspx
[26] Pinnacle West 2021 Proxy Statement, P. 67 at: http://s22.q4cdn.com/464697698/files/doc_financials/2020/ar/Final-2021-Proxy-Statement.pdf
[27] Pinnacle West 2021 Proxy Statement, P. 75 at: http://s22.q4cdn.com/464697698/files/doc_financials/2020/ar/Final-2021-Proxy-Statement.pdf